

## Message Text

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ACTION EB-04

INFO OCT-01 ISO-00 SS-04 EUR-03 NSCE-00 TRSE-00 CEA-01

FRB-03 INR-01 CIAE-00 SSO-00 INRE-00 /017 W

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O R 101515Z JAN 78

FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 9745

TREASURY DEPT WASHDC IMMEDIATE

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

C O N F I D E N T I A L ROME 456

LIMDIS GREENBACK

BRUSSELS FOR USEC; PARIS FOR USOECD

E. O. 11652: GDS

TAGS: EFIN, IT

SUBJ: ITALY DEBT SERVICE AND IMF RELATIONS

REF: 1977 ROME 20559 (NOTAL)

1. TREASATT CALLED ON TREASURY DIRECTOR GENERAL PALUMBO JANUARY 9 TO DISCUSS ITALIAN PLANS WITH RESPECT TO SCHEDULED IMF MID-TERM REVIEW AND TREASURY'S PERCEPTIONS OF ITALY'S FINANCIAL POSITION FOR 1978. PALUMBO MADE TWO MAJOR POINTS, WHICH HE CLAIMED TO BE HIS PERSONAL VIEWS AND ASKED THAT THEY BE TREATED AS SUCH.

2. ITALY-IMF RELATIONS. PALUMBO CONFIRMED WHAT ERCOLANI TOLD US A FEW WEEKS AGO (REPORTED REFTEL). HE TOO FAVORS SCRAPPING THE PRESENT STANDBY FOR A NEW TWO-YEAR AGREEMENT (1978 AND 1979) FOR DOLS 1.0 BILLION. WHILE BOTH ERCOLANI AND PALUMBO STATED THAT SUCH

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A PREFERENCE REPRESENTED A PERSONAL VIEWPOINT, THERE IS A HIGH PROBABILITY--GIVEN THE SIMILARITIES IN VIEWS OF THESE TWO IMPORTANT OFFICIALS--THAT THIS WILL ULTIMATELY BE THE OFFICIAL ITALIAN GOVERNMENT POSITION AS WE APPROACH THE IMF MID-TERM REVIEW (WHICH IS SCHEDULED TO TAKE PLACE BY APRIL).

3. ITALY'S DEBT SERVICE IN 1978. PALUMBO RELATED THE NEED FOR

A NEW TWO-YEAR AGREEMENT TO ITALY'S DEBT SERVICE FOR 1978. HE SAID THE REPAYMENT OF DOLS 4.9 BILLION IN COMPENSATORY (OFFICIAL) CREDITS ALONE (SEE BELOW) WAS SOMETHING NOT TO BE TAKEN LIGHTLY. IT WOULD APPEAR, HE MAINTAINED, THAT THESE DEBTS CAN ONLY BE MET BY A SUBSTANTIAL DRAWDOWN IN OFFICIAL RESERVES, A COURSE HE PERSONALLY FAVORED IF AN ALTERNATIVE COULD NOT BE FOUND. THE ALTERNATIVE HE WOULD LIKE TO SEE PURSUED IS FOR ITALY TO USE POSSIBLE DRAWINGS ON A NEW IMF STANDBY TO REPAY PART OF THESE DEBTS (OR BUFFET RESERVES WHICH WOULD OTHERWISE DECREASE). THE EFFECT OF THIS OPERATION WOULD BE THE REPAYMENT OF THE DEBTS TO THE BUNDESBANK, THE EC AND THE IMF DUE IN 1978 WHILE INCREASING ITALY'S INDEBTEDNESS TO THE IMF WHICH WOULD BE PAYABLE OVER THE LONGER TERM. HE ASKED, IN FACT, THAT WE (MEANING ITALY AND U.S.) BEGIN THINKING IN THESE TERMS. (IN THIS CONNECTION, HE HOPED THAT THE WITTEVEEN FACILITY WOULD RECEIVE EARLY APPROVAL SO THAT ITALY COULD UTILIZE THIS OTHER SOURCE OF IMF FUNDS.) HE EXPRESSED A DISLIKE FOR OUTRIGHT POSTPONEMENT OF ANY OF THESE OFFICIAL DEBTS, EVEN ON THE BUNDESBANK LOAN WHICH IS BACKED BY ITALY'S GOLD HOLDINGS, ON THE GROUNDS THAT IT IS BAD FOR THE COUNTRY'S IMAGE AND CREDITWORTHINESS. ITALY'S TOTAL COMPENSATORY DEBTS DUE THIS YEAR AMOUNT TO DOLS 4.9 BILLION, BROKEN DOWN AS FOLLOWS (BY QUARTER):

ITALY'S COMPENSATORY DEBT SERVICE OBLIGATIONS IN 1978  
(MILLIONS OF DOLLARS)

YEAR

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|                                         |       |     |       |     |          |     |       |
|-----------------------------------------|-------|-----|-------|-----|----------|-----|-------|
| ON LIABILITIES TO EUROMARKET            |       |     |       |     |          |     | 1,027 |
| PRINCIPAL                               |       |     |       |     |          | 562 |       |
| INTEREST                                |       |     |       |     |          | 465 |       |
| ON LIABILITIES TO OFFICIAL INSTITUTIONS |       |     |       |     |          |     |       |
|                                         | 1Q    | 2Q  | 3Q    | 4Q  | YEAR     |     |       |
| EC MEDIUM-TERM                          | 371   | 371 | 371   | 371 | 1,484    |     |       |
| PRINCIPAL                               | 350   | 350 | 350   | 350 | 1,400    |     |       |
| INTEREST                                | 21    | 21  | 21    | 21  | 84       |     |       |
| EC JOINT BORROWING                      | 24    | 24  | 24    | 24  | 98       |     |       |
| PRINCIPAL                               | -     | -   | -     | -   | -        |     |       |
| INTEREST                                | 24    | 24  | 24    | 24  | 98       |     |       |
| IMF STANDBY (1974)                      | 362   | -   | -     | -   | 362      |     |       |
| PRINCIPAL                               | 354   | -   | -     | -   | 354      |     |       |
| INTEREST                                | 8     | -   | -     | -   | 8        |     |       |
| IMF OIL FACILITY                        | 94    | 94  | 94    | 94  | 376      |     |       |
| PRINCIPAL                               | 64    | 64  | 64    | 64  | 256      |     |       |
| INTEREST                                | 30    | 30  | 30    | 30  | 120      |     |       |
| BUNDESBANK                              | 527   | -   | 1,054 | -   | -581     |     |       |
| PRINCIPAL                               | 500   | -   | 1,000 | -   | 1,500    |     |       |
| INTEREST                                | 27    | -   | 54    | -   | 81       |     |       |
| TOTAL DEBT                              | 1,378 | 489 | 1,543 | 489 | 4,928 &) |     |       |
| PRINCIPAL                               | 1,268 | 414 | 1,313 | 414 | 4,071    |     |       |

INTEREST 110 75 129 75 857

&) TOTAL FOR 1978 INCLUDES REPAYMENTS TO EUROMARKET  
LENDERS FOR WHICH A QUARTERLY BREAKDOWN WAS NOT  
AVAILABLE.

5. THE ITALIAN EXECUTIVE DIRECTOR TO THE IMF, LAMBERTO DINI,  
IS IN TOWN THIS WEEK FOR "CONSULTATIONS." HE TOLD THE AMBASSADOR  
(WITH WHOM HE MET BRIEFLY) AND THE TREASATT THAT THE MAIN PURPOSE  
OF HIS VISIT WAS TO CONVEY TO ITALIAN OFFICIALS THE IMF'S (AND HIS)  
CONCERNS WITH THE EVOLVING ECONOMIC SITUATION, PARTICULARLY  
WITH THE OUTLOOK FOR THE BUDGET DEFIC FOR 1978. HE SAID HE HAD HOPED  
TO HAVE WHITTOME FROM THE FUND STAFF COME PERSONALLY THIS  
MONTH TO EXPRESS THESE CONCERNS BUT THE POLITICAL CRISIS DID  
NOT MAKE SUCH A VISIT POSSIBLE.HOLMES  
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## Message Attributes

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